

**Prepared Statement of Amy McAnarney
Executive Director of H&R Block's Tax Institute**

[Good morning/Good afternoon.] My name is Amy McAnarney, Executive Director of H&R Block's Tax Institute. I am here today on behalf of H&R Block and Jackson Hewitt, the nation's two largest tax preparation companies. Taken together, we serve the tax preparation needs of nearly 24 million taxpayers each year and employ more than 155,000 [120,000HRB + 35,000JH] tax preparers annually.

We appreciate the opportunity to be here with you today to comment on the Tax Preparer's Initiative, to offer our support for such an initiative and to present our recommendations for how such a program should be designed and administered.

Specifically, this [morning/afternoon] I'll cover 2 primary items:

1. Guiding principles that we believe should form the foundation of a regulatory program, and
2. The key design elements for accomplishing the intended result of the program.

H&R Block and Jackson Hewitt have a strong history of supporting regulatory and legislative efforts to improve the training, professionalism and ethics of all tax preparers. We believe a regulatory program that focuses on increasing tax preparer compliance and performance standards is in the best interests of our two companies, the industry, and most important, taxpayers. Taxpayers deserve a tax system that they can trust and that works efficiently.

However, there is no federal program in place that guarantees that taxpayers are served by paid preparers who comply with the law and adhere to professional standards. With only a handful of states regulating preparers, we believe a federal program for the regulation of tax preparers would ensure uniformity in licensing and standard setting and thereby gain the trust of all taxpayers and protect their interests.

While H&R Block and Jackson Hewitt strongly support a federal regulatory program, we believe there are 5 guiding principles that must form the foundation of a national program:

1. First, such a program must include a strong enforcement mechanism with sufficient resources to ensure its long-term resilience and credibility. Without strong enforcement the initiative will be meaningless and could mislead taxpayers who believe that standards are being enforced.
2. Second, such a program must make tax preparers demonstrate a minimum level of competency in the area of income tax knowledge. A study by The Tax Institute revealed that 74 percent of taxpayers aren't aware of specific tax law changes that will affect them. The same study showed that taxpayers rely on tax preparers to learn about these changes.

For these reasons, it's critical that preparers have demonstrated a level of competency and current knowledge.

3. Third, the program must include training and the demonstration of high ethical standards. Taxpayers need to have assurance that they can trust the person to prepare their taxes with the highest ethical standards.

4. Fourth, the program must include a strong public awareness campaign to increase the education of the taxpayer community regarding the program. Taxpayers need to be informed of the existence and benefits of this new regulatory program, along with its limitations.

5. Finally, the program should not penalize or bring additional burden to taxpayers without cause. This program should be built around regulating the tax preparer. Overall, we believe the program must raise the standards of the tax preparers and eliminate those who try to evade such standards. With these five principles establishing the foundation of a regulatory program, we believe the program should contain the following 5 design elements:

1) The program should apply to all individual income tax return preparers who either sign the return or who materially assist with preparation of a tax return but do not sign as a preparer, including:

- Paid preparers and preparers via organized volunteer organizations such as VITA and AARP
- Circular 230 and non-circular 230
- And, to some extent, software developers

2) We also believe the program should focus on federal individual income tax returns, specifically the 1040 series and its related forms and schedules.

3) The program must include a combination of examination and continuing education to demonstrate a minimum level of competence.

Specifically, an initial exam should be required to demonstrate a minimum level of competence in the areas of income tax knowledge, tax administration procedures and ethics. Circular 230 practitioners would pre-qualify based upon their existing testing and ethics programs. As a result, we believe they should not be subject to this initial exam.

Continuing education should also be required to demonstrate an ongoing level of competence. We prefer a requirement focusing on year-over-year tax law and administrative changes.

Last, in the area of examination and continuing education, we recommend that other certification programs be submitted for approval.

To assist in the overall administration of this portion, we strongly urge the IRS to consider a process whereby tax preparation and/or education organizations (profit and non-profit) would submit their certification programs for qualification. We believe this would reduce the overall burden and potential costs of the program administrator.

4) We also believe the program should allow for the administrator and taxpayer population to be able to identify those tax practitioners who have demonstrated the minimum level of competency for the preparation of income tax returns. This would be accomplished through the following means:

Registration – Each qualified tax preparer should be required to register with the administrator and obtain a unique ID number. Preparing returns without a valid license would be prohibited and subject to penalties.

Compliance Checks – Prior to registration, an applicant should be checked for their own tax filing compliance and any prior or pending suspension or disbarment. An applicant not current on his or her own tax filing or is suspended or disbarred, will be ineligible for registration.

Funding mechanism – The cost of registration should be sufficient to absorb most of the cost of maintaining the administration and enforcement agency.

Public outreach and awareness program – A strong public outreach, awareness and education campaign is essential to help taxpayers understand the program.

5) This leads us to our 5th recommended design element: The administering body should be granted the ability to create, amend, implement and enforce the rules, and it should be funded primarily through a reasonable annual assessment on the regulated preparers.

We believe the most important criteria for the administering body are 1) Long-term resilience supported by sufficient and sustained enforcement and administrative resources, 2) Flexibility and ability to quickly respond to emerging issues, and 3) Operational efficiency and cost effectiveness.

While H&R Block and Jackson Hewitt agree on the criteria for the administering body, we respectfully differ on what kind of administering body best fulfills these criteria, whether it be a self regulatory organization (SRO) as H&R Block recommends, or a government agency as Jackson Hewitt prefers. Again, we are united in the required criteria; we just differ on the appropriate regulatory structure.

We do believe, regardless of the kind of regulatory structure that is ultimately chosen, it must coordinate with existing standard-setting bodies to produce efficiencies and consistent tax preparer standards.

In conclusion, H&R Block and Jackson Hewitt strongly support a national regulatory program that will provide a uniform federal standard of qualification, ethics and service for all paid tax return preparers. Taxpayers deserve such a program, and we all have a

great deal at stake. We believe the guiding principles and design elements outlined here today are critical to the establishment and success of such a national program. We look forward to working with the Internal Revenue Service and industry stakeholders to bring such a program to life for our industry, our employees and the U.S. taxpayer. Thank you for your time today and for allowing us to contribute to this critical initiative